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# Board Nomination and Selection Process in Indonesian State-Owned Enterprises

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A transparent nomination and selection process is the first step towards obtaining qualified members of board. It is believed that as the representative (agent) of the owners, members of the board must consist of competent and professional people. However, the development of transparent and ideal nomination and selection processes in Indonesian State-owned enterprises (SOEs) has been based on relatively little research. Considering the relative importance attached by boards to conduct their roles in their principal's interest in a variety of governance tasks in state-owned enterprises, the primary aim of this paper is to shed light on the extent to which the nomination and selection process impacts performance of the board in implementing good corporate governance in Indonesian SOEs. The exploratory nature of this study led to the adoption of a qualitative research methodology which uses semi-structured interviews and publically available documents to collect a range of data pertaining to board nomination and selection and the work of the boards. Interviews were conducted with four informants from three Indonesian SOEs and the Ministry of SOEs. Findings in this study demonstrate that unclear job description and expectations exist for board members as a result of unclear functions of the board in Indonesian SOEs and exists in a situation where making transparent and accountable nomination and selection processes is hard to actuate. This situation is vulnerable to the influences from political interests and that even the process itself can degenerate into situations of political interference. In the end, it often leads to choosing the wrong person for membership of the board. This study makes a significant contribution to several field: human resource management, corporate governance, and Southeast Asia studies by addressing the basic research gaps of board selection process issues in Indonesian SOEs. The gap is addressed by providing a more coherent framework for an effective nomination and selection system which reflects more clearly the real experiences of those actually involved at the board level.

## Introduction

Studies of corporate governance have been discussed in developed economies since 1980s, however the practices of corporate governance did not become widely used in almost all countries in the world until after the world economic crisis in 1997-1998 (Barton, Coombes, & Wong, 2004). The global crisis in 2007 added further strands to corporate governance development (Lefort & Urzua, 2008). The board as governing body was accused being responsible as they breached their fiduciary duties (Cadbury, 1999; Clarke, 2004). More and more controversy was publicly aired by shareholders, resulting in responses that affected the makeup and operations of boards at the end of 1980s (Kakabadse & Kakabadse, 2008). These board issues appeared in the SOEs of many countries (OECD, 2005). The problems of passive boards and undue political interference in the work of boards have prompted public concern over the governance of SOEs (OECD, 2005). These facts ushered in a new era of pressure for change (Leblanc & Gillies, 2005). As a result, the interest in board activities grew in a short period, from little or mild, to high or keen interest (Maw & Cooper, 1994).

Reflecting this increasing interest, the literature and theory about boards in SOEs also developed with the emphasis on structural change (Tricker, 2012). There developed a major interest to have better boards in SOEs stressing the transparency issues such as the proportion of independent versus inside directors, the role of the audit committee, the committee membership (which was mandated to be entirely of independent directors), and the importance of the internal auditor role (Ingley & van der Walt, 2004; Kakabadse & Kakabadse, 2001). Despite those studies, the work of many boards in SOEs is still not fully effective (OECD, 2005). There are still broad gaps between the knowledge and practice of the roles of the boards in SOEs. This broad gap may also mean that the thinking of the roles of the



boards needs to evolve (Tricker, 2012). Indonesia, with the fourth largest population in the world provides a special case for the study of corporate governance because of its huge marketplace. It also gives an interesting contrast to corporate governance systems in the developed countries as Indonesian has a unique governance system.

According Hendry and Kiei (2004), boards will not be effective if they are only concerned with strategic control (such as supervisor management and being accountable) as this role is part of the control role (or conformance role). The boards are expected to be involved in strategic thinking such as vision or mission-building thus requiring members of the board with competent strategic vision, leadership skills and strategic “direction-giving” (Ingley & van der Walt, 2001). To achieve those desired requirements, member of the board must consist of competent and professional people that have the necessary skills, experience, knowledge and network to seek the information needed, to analyze the information given by the management, and to balance the work of the management (Ingley & Walt, 2005 ). If members of the board are professional, it means the board can not only direct the management, but can also make valuable contributions to strategy formulation and policy making to achieve good governance of the SOEs (duty of care) (Kakabadse, et al., 2010).

Some scholars who studied the board found the board’s competencies and the process of decision-making not only depends on the board structure, but also on the qualifications and style of each board member. A contribution from each individual member of the board is necessary for effectiveness of the board. The nomination and selection process is the first step to obtaining qualified members (Moodie, 2001). A transparent nomination process will help ensure good quality competitive candidates with high profile, good experiences, educated, and the desired characteristics are selected (Tricker, 2012b).

According to previous studies, a good job design/expectation is important for transparent nomination processes. This is because clear job design is able to define who should be nominated and guide selection of the right person for the job. If all the tasks, responsibilities, and authorities are well identified, then the organization may be able to conduct a transparent and accountable recruitment process because clear tasks, responsibilities, and authorities will establish clear measurements and requisites for the selection of the candidate. Furthermore, other scholars emphasized that job design is a key component in managing boards because it is one major way to translate company goals into the specific actions that are required of the board to perform their job (Lepak & Gowan, 2010).

However, data from OECD (2005) shown that most selection processes in SOEs are not transparent and accountable. Thus in practice, most SOE board members in many countries tend to lack substantial business perspectives, are of low quality and are often not independent, particularly the ones nominated by the state. These state representatives may also be deprived of some of their critical responsibilities, to the benefit of shareholding ministers or the management. Their presence may in cases transform SOE boards into a political negotiation arena as a transparent nomination process may be hard to conduct due to political interference and conflicts of interest in SOEs.

Despite the importance of clear job design and transparent selection processes, study on selection and nomination to board performance in SOEs has been based on relatively little research, particularly in Indonesian SOEs. Meanwhile for Indonesian SOEs, the board of commissioners (Indonesia’s term for the board) plays an important role as the internal control mechanism in implementing good corporate governance. Consequently, it is interesting to have further studies as to whether the selection and nomination process has an effect on the board of commissioner’s (BoC’s) effectiveness as measured by succession implementing GCG in the SOEs. The purpose of this study is to shed light on the extent of nomination and selection process impact performance of the board in implementing good corporate governance in Indonesian SOEs. By using qualitative approach through in-depth interview of members of the BoC, board of directors, and government officials, the “real” view and perception of the extent of the selection and nomination process impacting the performance of the board is revealed and it may lead to new interpretations of the process.

Following this introduction, this paper is presented in four main parts. The first part is a critical review of selection and nomination processes. The second part reviews the selection and nomination system in Indonesian SOEs. The third describes methodological approach in this study. After that, it continues by outlining the findings from the data collected through semi-structured interviews. The final section concludes the paper including recommendations for the government.

### **Critical Review: The Board Nomination and Selection Process**

There are three situations which require the nomination of the board members (Tricker, 2009a): first is the appointment to fill a vacancy arising because of a resignation or death, or when the board members are unable to serve, second is the re-appointment on the expiry of the board members, third is on the creation of an additional commissionership. Tricker (2009a) and Garrat (2006) are of the view that there are criteria regarding individual characteristics for a good board member and the main one is integrity. Integrity means being able to distinguish right from wrong and to judge corporate behavior accordingly (Tricker, 2009a). As the board members are agents of the company, they must conduct their fiduciary duties with integrity, openly and honestly (Garratt, 2006). A person with integrity is trusted and trust is essential in the relationship between principal and agent (Fama & Jensen, 1983).

Other important criteria are intellect, strength of character, and a desirable personality (Leblanc & Gillies, 2005). Intellect is having 'a good mind' (Earl, 1983). An intellectual person is the person who has an appropriate level of intelligence, able to think at a different level of abstraction and able to see situations from different perspectives. Strength of character means that a person is independently minded, objective, and impartial (Muller, 2009). Members of the boards are expected to be tough-minded, tenacious, resilient, have the courage to take a stand, be results-oriented with a balanced approach to risks, and to act wisely (Kakabadse & Kakabadse, 2008). A desirable personality means that the board members are expected to have flexibility, sensitivity, diplomacy, persuasiveness, the ability to motivate and a sense of humor (Garratt, 2006). These kinds of personalities are sufficient in the interaction between the chairman and his boardroom peers (Tricker, 2009a).

Along with choosing board members based on these characteristics, a transparent nomination process helps ensure that good quality competitive candidates with the desired characteristics are selected (Tricker, 2012b). Edwards (2006) notes that, ideally, a good nomination process has five main stages: preparation of the process and vacancy profile, locating suitable candidates, assessing and vetting potential candidates, selection and appointment, and an auditing process. She also adds that every step has its challenges but the critical steps where the process might be bypassed due to time pressures and cronyism are stages three and four. For example, if a minister or other influential decision-maker has personal, business or political connections with the chosen candidates, stages three and four could be perceived as compromised or flawed unless there is acknowledgement of any conflict of interest and it is appropriately handled (Edwards, 2006).

However, a report from OECD (2005) finds that the nomination process of the SOE boards in many OECD countries is too rigid and lacks transparency. There are many different ministries and government bodies involved and a strong political agenda influences the process (OECD, 2005). This kind of situation is frequently found in the countries that use a dual model ownership, where the SOE board usually is nominated by ministries and the final decision is in the hands of the prime minister or president (OECD, 2005). Some scholars argue that such a nomination process is vulnerable to influences from political interest and that even the process itself can degenerate into situations of political interference (Chang & Wong, 2004; Okhmatovskiy, 2010; Roe, 2003). The interference could be through complex negotiation among the ministries or government bodies or direct nomination of political appointees which sometimes involves the parliament or even the president (Okhmatovskiy, 2010; Watanabe, 2002).

A study by Rajagopalan and Zhang (2008) found that not just state representative but most of the independent members on China SOE boards are political allies or friends or relatives of senior managers or owners who may represent the majority shareholder (government). Their findings are supported by Lu (2009) who found that the selection of the board members in Chinese SOEs is often determined by the Chinese Communist Party rather than through any competitive selection mechanism, including the selection of independent board members. As a result, many board chairs and members are directly sourced from government officials. In addition, maintaining a good relationship is extremely important in the selection process and in the process of accountability in Chinese SOEs (JianYu, 2007). A study from Indonesia also indicates that the lack of nomination process reform is one of the reasons why independent board members have an insignificant relationship with a company's performance (Prabowo & Simpson, 2011).

According to the OECD (2005), to avoid abuse of power, cronyism and political bias many countries had already started to establish regulations about the selection process for members of boards.

In Norway, the government has explicitly excluded the involvement of members of the Parliament, Ministries or State Secretaries on the boards of SOEs (OECD, 2005). As well, South Korea started a major reform in the nomination process by reducing the number of military or high level bureaucrats on the management and boards of SOEs on political grounds and forbidding nomination as a reward for career service (OECD, 2005). Even in China in September 2008, there was an agreement between the Chinese Communist Party and government that the leaders of Chinese SOEs will no longer come from the civil service or the management of the enterprise (Lu, 2009).

Lu's (2009) study also found that many developed countries have started to make the process of recruitment one of open market competition. Their governments have set up structured nomination processes and skill-based nomination systems to ensure that the main selection criteria are competency skills (OECD, 2005). The UK has already developed principles including ministerial responsibility, merit, independent scrutiny, equal opportunities, probity, openness and transparency and proportionality, and a code of practice around the appointment of boards in the public sector (OCPA, 2005).

Some countries have also established a nomination committee, particularly for listed SOEs (OECD, 2005). Such a committee has duties to list requirements and develop further regulation of the nomination process. As an independent body, this committee is expected to make the nomination process more efficient, transparent and based on merit, and to exclude political activity and affiliation by using selection criteria as well as audits (OECD, 2005). Many countries have already built databases for qualified candidates as well as relying on the independent recruitment agencies to seek appropriate candidates (Lester, Hilman, Zardkoohi, & Cannella, 2008). However, the challenges of the nomination process rely not only on the systems and regulations but also on the lack of timeliness (Kakabadse, et al., 2010). Many nomination processes take excessive time because of their complexity and involvement of a number of bodies or entities. These challenges have an impact on the continuity and stability of the roles of the board (OECD, 2005).

#### *Objectives*

Based on the gap in knowledge of the boards and by using Indonesian SOEs as the context of the study, this research focuses on the extent of a board's selection process impacting performance of the board in implementing good corporate governance (GCG) in Indonesian state-owned enterprises (SOEs). It assesses the link between the boards' selection mechanism and the effectiveness of the BoCs. The following research question guided this study:

*How effective is the boards' selection mechanism process's impact on the work of the Boards of Commissioners in Indonesian State-Owned Enterprises?*

In addressing this question, two sub-questions are examined:

- To what extent does the selection process impact on the work of the Boards of Commissioners in Indonesian State-Owned Enterprises?
- To what extent is the selection process adequate for members of the Boards of Commissioners in Indonesian State-Owned Enterprises?

#### *Selection and Nomination Process in Indonesian SOEs*

The selection and recruitment of members of the BoC in Indonesian SOEs are less regulated than selection of BoD members. The arrangements for the selection process of the BoC are stipulated in Article 28 of Law No.19 (*Undang – Undang BUMN* (Indonesian SOEs Law) no. 19, 2003) which states that:

Members of the BoC are appointed on the basis of consideration of integrity, dedication, understanding corporate management issues related to one of the management functions, have sufficient knowledge in the field of the company, as well as to provide enough time to do their job. (p. 6)

Furthermore, Article 30 of the law states that “a further provision concerning the requirements and procedures for the appointment and dismissal of the BoC is set by the decision of the Minister” (p. 6). This means that the government gives full authority to the Minister of SOEs to design the selection process and select members of the BoC who have the characteristics (see Article 28 above) necessary to do their functions. However, the minister is usually a member of a certain political party. Sometime the minister is appointed to represent the interest of a political party. Such authority may give

opportunity for the minister to select a person as President Commissioner in strategic SOEs because of their alliance (Wicaksono, 2009).

For listed SOEs, or SOEs that raise and manage public funds, or SOEs with products or services used by the public, or SOEs that have a broad impact on the environment, the assessment process of prospective members of the BoC is different (Nasution & Setiawan, 2007). The selection is meant to be conducted prior to the AGMS by the Nomination and Remuneration Committee and must consider the opinions of minority shareholders (Ministry of State-Owned Enterprises, 2006). To do so, the Government regulated four stages of the selection process of prospective BoC members (Ministry of State-Owned Enterprises, 2006). First, the Ministry of SOEs forms an evaluation team consisting of one or several members of the BoC and government officials from the Ministry of SOEs, Finance or other ministries. This evaluation team consists of at most five members, including a team leader. The evaluation team is chaired by a previous independent commissioner who is appointed by the BoC.

Second, the evaluation team receives suggestions from the nomination committee or the Ministry or previous BoC members or other sources, then the team searches for information about the candidates from other sources and establishes a long-list of candidates. This long-list is submitted to the deputy Minister of SOEs for approval. Third, after receiving approval, the team conducts a Fit and Proper Test (FPT) of the candidates. The fit and proper testing is one process that should be done by the Ministry of SOEs for recruitment (selection) of the BoC and the BoD. However, the fit and proper test is not an end but merely an instrument (tool) to get prospective directors in accordance with the criteria established.

Fourth, the deputy minister of SOEs, or another deputy minister, conducts the final evaluation from the short list in order to determine one candidate for each position of the BoC and the successful nominee is recommended to the Minister of SOEs for approval. The Minister of SOEs has to give the final result no later than 30 (thirty) calendar days from the date he receives the recommendation of the BoC members. This four stage process was established in order to avoid the intervention of other parties, be it from political parties or from other power holders, who have vested interests which can lead to biased decision-making (Arafat & Fajri, 2009). In the past, SOEs became fertile grounds for the practice of 'looting' and often served as 'cash cows' for the political interests of certain parties. It is necessary to prevent the candidate 'surrogate' because the candidate surrogate is contrary to the principles of GCG, especially the principle of fairness and freedom from conflict of interest (Arafat & Fajri, 2009).

After the candidates of the BoC are selected, then the process continues to an agreement (called Statement of Corporate Intent - SCI) on members of the BoC to be appointed (Ministry of State-Owned Enterprises, 2002b). The SCI is one tool that is quite important to improve the transparency of SOEs. This tool can be used as a guideline for the management of SOEs, the Ministry of SOEs, and the public to promote the establishment of GCG practices in SOEs. This SCI have been prepared by the BoD and approved by the BoC. Preparation of the SCI is intended to create a transparent indicator of the performances of SOEs in order to ensure optimal performance of SOEs and the effective, efficient, and sustainable use of resources. It is also considered to be a commitment of SOEs and their shareholders to the performance and accountability forecasts for the next few years. The agreement in the SCI include a promise from the BoD, the BoC and all staff that they will try earnestly to advance the company in accordance with short and long term plans that have been defined with emphasis on the achievement of corporate value (Arafat & Fajri, 2009).

However although the regulation states that members of the BoC are appointed and dismissed by the AGMS through a transparent process, in practice many selection processes are not transparent (Rosser, 2003). In many cases, the appointed members of the BoC are only based on respect, family relationships, or other close relationships (referred to as nepotism) (Abeng, 2010). As a result, many members of the BoC are former members of BoD from other SOEs, former officers from the Ministry of SOEs, Finance or another related ministry, former military Generals, and former ambassadors (Kirana & Habriansyah, 2004). Since they are not totally independent, in some SOEs there is a tendency for the BoC to influence the directors in carrying out their duties (Abeng, 2001). Meanwhile, for others SOEs, the BoD are usually in a strong position, are reluctant to share authority and do not provide proper information to the BoC because they lack competence and integrity (Arafat & Fajri, 2009). Thus it may necessary to have further research regarding how effective the nomination and selection process in Indonesian SOEs is and how it impacts the performance of the BoC.



## Research Methodology

Since this present study is primarily around exploring the perceptions and thoughts of key participants to search for the answers to the research questions, a qualitative research methodology was used. By engaging with the key actors who were involved with the work of the BoCs which are government officials as shareholders' representative, members of the BoD represent management board, and members of the BoC represent the supervisory board, this study explores the extent of the selection process and how the selection process impacts the BoC's performance in Indonesian SOEs.

Due to nature of the study, it is believed that it is important to gain in-depth understanding from the experiences and perspectives of the actors to the extent that they influence the effectiveness of the BoC in Indonesian SOEs which had never been done previously. The adoption of a qualitative approach may enhance an understanding the real practices of the BoC in Indonesian SOEs. In order to answer the research questions, this study was designed to use triangulation method for data collection, including conducting semi-structured interviews as well as utilizing documentary analysis from the government, international and national agencies, the SOEs, mass-media outputs, and virtual outputs.

Primary data was collected by semi-structured interviews from a selection of three SOEs, which consist of one listed and two non-listed companies. A total of five in-depth semi-structured interviewes were conducted for and average one hour from participants in order to allow participants to reveal their "real" views and perceptions (List of Participants provided in table 1 below). The data were also collected based on the scholars' perspective in analyzing and explaining the impact of selection mechanisms of the process and tying it to the performance of the BoC. They do not statistically represent the views of Indonesian SOE boards but provide preliminary perspectives on their operation.

No	Company Code	Company Type (code)	Listed (L) or Non Listed (NL)	Participants Backgrounds				Participant Code
				Age	Years of Work Experiences	Years of Tenure	Position	
1	BRA	Banking (BK)	NL	51	28	3	Government Commissioner	Gov. Comm-BK-17
2	BMI	Banking (BK)	L	66	42	10	President Commissioner	Pres. Comm-BK-6
3	JSK	Financial Institution (FI)	NL	64	40	9	President Commissioner	Pres. Comm-FI-9
4	FCI	GCG Consultant (GC)	n/a	43	20	5	Indonesia CG Scholar	CG Expert-GC-20
5	Ministry of SOEs	Ministry of SOEs (MS)	n/a	55	31	28	Government Officer	Gov. off-MS-21

**Table 1; List of Participants**

**(Sources: Prepared by the author)**

A purposive sampling approach was used to draw sample from relevant SOEs. There was also an attempt to effect snowball sampling when some participants suggested or introduced other relevant people with the same characteristics to participate in our research. Access to participants was ultimately through personal contacts.



## Findings and Analysis

This section starts with presentations and analyses of data from participants regarding their perception of the extent to which job design/expectation and the nomination and selection process impacts on the work of the BoCs in Indonesian SOEs. As discussed in Chapter 2, the clarity of job design may determine transparent and accountable nomination and selection processes (Lepak & Gowan, 2010). Without a clear job design/expectation, it is not just difficult to determine the job responsibilities and candidate requirements, but it is also very hard to have a transparent selection and nomination process (Wright, Dunford, & Snell, 2001). A transparent nomination and selection process is the front line to getting qualified members that may contribute to the board's effectiveness (Lester et al., 2008).

Findings in this study support this view. Questions regarding the participants' perceptions of the job design for, and expectation of, members of the BoC were raised. The comments of the President Commissioner about his understanding of the job design/expectation for each member of the BoC in his SOEs follow.

In my point of view, the working mechanism in the SOEs is the interaction between agents. As you know, a major shareholder in SOEs is the ministry. But, who is the ministry? They are agents of the government, not the real owners. And who is the BoD or the BoC, they are also agents. How could this thing happen? It is because the SOE does not have a clear owner. Unfortunately, if the interaction on the company is only between agents, this company is vulnerable to bad governance. Thus, in order to solve this problem, the company needs members of the BoC and the BoD who have special characteristics. The intellect, strong character, desirable personality, knowing corporate law and having integrity become very important requirements for members of the BoC and the BoD in our SOEs (Gov. off-MS-21).

From this response it seems that he has misunderstood the meaning of the job design. He related the job design more to the desired characteristic of members of the BoC rather than to the task, responsibilities, and authority. Another interviewee from the government commissioners responded in a similar manner. He underlined the qualifications of members of the BoC rather than discussing the process of how the SOEs design the jobs for members of the BoC.

There are three requisites in the selection process; first, members of the BoC have competency in their respective business sector; secondly, members of the BoC recognize the mechanism of corporate legal, and third they have integrity. While the nomination process members of the BoD has ten terms (Gov. Comm-BK-17.)

From these responses it is seen that those participants do not have a good understanding of the job design/expectation of members of the BoCs. Their answers refer more to personal characteristics rather than the responsibilities of the position and authority over members of the BoC. According to Lepak and Gowan (2010) clarity of the task, responsibilities and roles of the employee are necessary to build job descriptions. Thus, it probably indicates that the lack of clarity about BoCs' responsibilities in Indonesian SOEs causes this misunderstanding of participants about job design (see previous section).

In their study, Lepak and Gowan (2010) also claimed that job design is a key component in managing boards because it is one major way to translate company goals into the specific actions that are required of BoCs to perform their job. Furthermore, the job design may help to identify the necessary competencies, backgrounds, education and experiences that are expected from the candidates in order to have a functional BoC (Moodie, 2001). A functional BoC is made up of people who can work together and contribute to the 'positive chemistry' of the group and arrive at decisions after thoughtful discussion; those boards who cannot work this way have been labelled 'dysfunctional' (Leblanc & Gillies, 2005). Therefore, without clear a job design and clear expectations, many members of the BoCs in Indonesian SOEs find it difficult to establish functional BoCs.

Furthermore, Wright et al. (2001) argue that the job design/expectation is important for the organization to be able to nominate and select the right person for the job. If all the tasks, responsibilities, and authorities are well identified, then the organization may be able to conduct a transparent and accountable recruitment process because clear tasks, responsibilities, and authorities establish clear measurements and requisites for the selection of the candidate. The transparent and accountable nomination and selection process is important to identify persons who have necessary

requirements (OECD, 2004) as well as help to ensure good quality competitive candidates are selected (Tricker, 2012).

Therefore, because Indonesian SOEs do not have a clear description of the job responsibilities or expectation for each member of the BoC, it is very hard for the nomination committee to conduct the process of nomination and selection based on merit, efficiency, and transparency (see duties and tasks of the nomination committee in Appendix C). This study finds that due to unclear job design, the process of searching and recruiting the desired candidates is challenging. As a result, candidates are frequently selected based on their network, political affiliation, and personal relationships. One of the participants who is President Commissioner expressed this argument:

The selection and nomination of a BoC depends on the Minister and his sub-ordinates... However, **I questioned the capabilities of the ministry** to find a good and suitable person. If they want members of the BoC to become professional, then the selection and nomination process must professional, too (Pres. Comm-FI-9.)

The sentence 'I questioned the capabilities of the ministry' has to been highlighted. It is presented in this way because it also means that frequently the person selected is not the right person for the job as the current nomination and selection process tends to be based on the network approach rather than one based on merit and transparency. According to Okhmatovskiy (2010) and Watanabe (2002), the network approach in the selection process of the members of the boards impacts on the quality and independence of the candidate selected because the network approach is vulnerable to political and personal influence.

A CG expert participant also indicated the same idea. He addressed the implementation of the selection and nomination process and said they are different to that which is written in policies (see Chapter 3 for details). Frequently, the process of selection and nomination of members of the BoC in Indonesia SOEs becomes shortened and ignores the principles of transparency and accountability.

We should differentiate between the policy and the reality in the nomination or selection of the BoC members. As long the roles of the BoC have not been defined clearly, and the BoC have little attention from the government and public then it is difficult for the SOEs to have ideal mechanisms in the recruitment process of the BoC as it written in the policy. For the government, practitioners, and most of the public, the BoCs in Indonesia is the entity that been treated as something that the law required incorporated SOEs to have, but in reality very little was known about the real functions of the BoC (CG Expert-GC-20).

He also added that the difficulty of having a transparent nomination and selection processes is not just because of unclear job descriptions, but is also because of limited availability of candidates and an unattractive remuneration of the BoC.

Responsibilities of the BoC are written in the government policies. However, it is too general. According to my point of view, based on this policy each SOE should determine the job and duties of members of the BoC more specifically, so each member of the BoC knows what kind of performance they are expected to deliver. Furthermore, it was not so easy to find professional persons with integrity, strong character and desirable personality who can be nominated as the BoC members without having any knowledge of what they are expected to perform. In Indonesian SOEs, the **limited human resources** and the un-attractive remuneration become reasons for the difficulties in finding qualified candidates (CG Expert-GC-20).

The impression of 'limited human resources' here should also be highlighted because candidates with the desired qualifications are not always available. An independent commissioner of a bank in Indonesia, when interviewed by Prihatiningtias (2012) confirmed that only a few people, particularly few women, are qualified and available to be members of the BoCs. However, Ellig and Lang (2008) argue that qualified candidates are available; it is a matter of how the company may attract the right candidate at the right time with a transparent process and attractive remuneration.

Furthermore, by cross-checking the position against backgrounds of members of the BoC in Indonesian SOEs, it was found that there are BoC members who have experience and education that are not aligned with the position they represent. For example, in a particular agro-industrial SOE, there was a priest appointed as a member of the BoC. A priest is not going to know anything about the agroindustry. He was appointed just because the majority of people at the plantation were Christian. As a respected priest, the community will likely listen to and trust him and will not bother the plantation's operations.

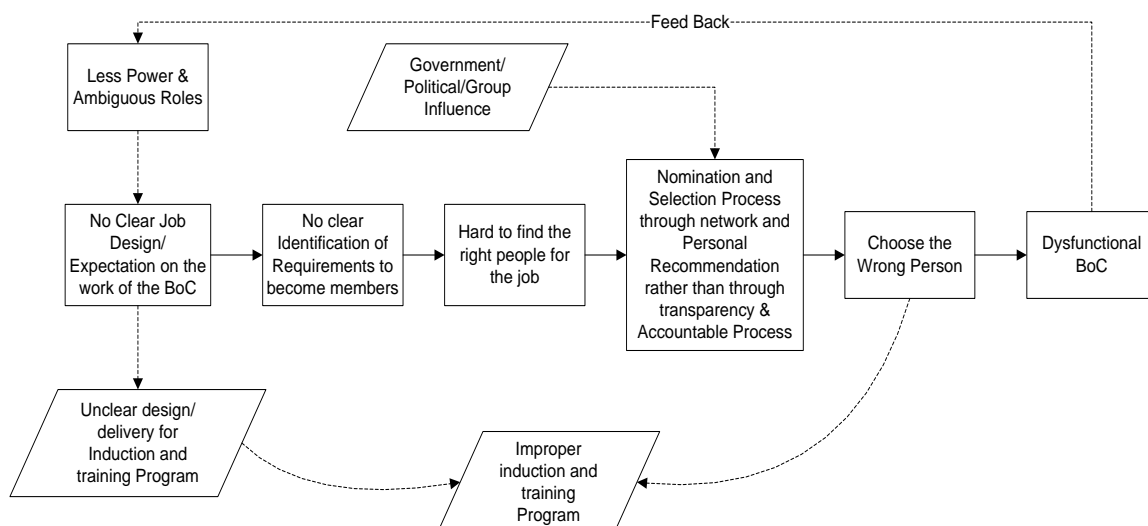
Studies from previous Indonesian scholars show similar results. They have found that former ministers or diplomats, former government civil servants, ambassadors, and academics have been appointed as members of the BoCs in Indonesian SOEs and they often do not have any understanding of how to direct the enterprise or deal with listed companies (Abeng, 2001; Hardjapamekas, 2000; Kamal, 2008a). Most of their appointments are more as a form of reward for their services as public servants rather than for their being professionals in the business (Abeng, 2001). Unfortunately, by only experience as leaders, but without having appropriate capabilities and understanding about directing a business, may not be enough to form a functional BoC in SOEs (Tan & Wang, 2007).

Furthermore, these former ministers or diplomats, former government civil servants, ambassadors, and academics who been selected as members of the BoC frequently have a personal relationship with the appointees who are the bureaucrats. As one government commissioner participant comments, sometimes the Indonesian government has to appreciate the seniors by giving them ‘prestige’ positions (such as members of the BoC in SOEs). In this situation, personal recommendation becomes the most-important factor rather than independence, transparency, and accountability in selecting members of the BoC.

Placing their people into the BoCs, particularly in strategic Indonesian SOEs might be used by political parties, as well as particular groups, to promote their agenda (Habir, 2005). By using their allies inside the ministries, these particular parties and groups will ensure that members of the BoC and the BoD secure their interest in particular SOEs. With the support of the culture of Indonesian SOEs (see the Chapter 3), it is not surprising if abuse of power, cronyism and political bias flourishes in nomination and selection of members of the BoCs; particularly in strategic Indonesian SOEs. Under such conditions, finding qualified members of the BoC is no longer the enterprise’s objective.

Meanwhile, without good qualifications, it hard for a person be able to be immediately productive in the BoC’s because they need motivation, training, and development to achieve the necessary competencies (Moodie, 2001). Nevertheless, despite many disadvantages of the network approach, some scholars argue that, due to organizational culture, sometimes recruitment based on the personal recommendation may bring stability in the operation of SOEs (Prabowo & Simpson, 2011; Jianyu, 2008). Thus, it may be necessary to analyze the part played by organizational cultures in the nomination and selection process of members of the BoC.

A summary of findings in this sub-section is shown in Figure 1 which presents the inter-relationship between variables with respect to job design, nomination, and the selection process (shown by the full line) and between other factors (shown by the dashed line).



**Figure 1: The relationship between variables related to job design, and the nomination and selection process.**



## **Conclusion**

The implementation of the process for nomination and selection of members of the BoCs in Indonesian SOEs has been far from perfect. The process of nomination and selection is still largely driven by relationship rather than by professionalism and competency considerations as there have been no clear and standard rules about the BoCs' criteria. Based on the above findings and discussion, this study suggests that the process of selection is not getting professional people who have credibility and authority to execute the roles of overseeing and directing the SOEs and the current process is inter-related with other factors. It starts with the choice of the governance structure model that determines the roles members of the BoC are expected to play in SOEs. This expectation summarized under the job description. In the case of Indonesian SOEs, since there is ambiguity about the roles of the BoC and the job description for members of the BoC is not clear. This unclear expectation of members of the BoC impacts on the selection and nomination process of the BoC. The interviewees revealed that to gain desirable attributes (including individual characteristics like integrity, intellect, character traits, and personality) and competencies (such as knowledge, skill, and experience) it is necessary for the SOEs to have a clear understanding about the job of each member of the BoC.

This study also demonstrates that members of the BoCs in SOEs should be selected and nominated through transparent processes as happens in listed SOEs because the government does not always act as the main decision body regarding the nomination and selection of members of the BoCs and, more particularly, in determining independent commissioners. Political influences are less involved. As a result, many of the members become active members, perform better, and contribute more to the SOEs. In the SOEs where the nomination of SOEs boards is sometimes complex and there is lack of transparency, board members are frequently passive and may maintain the status quo instead being the drivers of change processes because they are usually affiliated with political or other interest groups. In SOEs where the state is the sole owner and there is an atmosphere of complexity and lack transparency, there is greater political influence from bureaucrats or others groups. This political influence is either through the nomination process itself, involving complex political negotiations between different government organs, or through direct nomination of political appointees. In such situations, the members of the BoCs are populated with people chosen for their political allegiance rather than because of their business acumen.

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